RECORD AND BRIEFS

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In the Supreme Court of the United States

OIL STATES ENERGY SERVICES, LLC,
Petitioner,

v.

GREENE'S ENERGY GROUP, LLC, *et al.*,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICI CURIAE* RETAIL LITIGATION CENTER, INC. AND NATIONAL RETAIL FEDERATION IN SUPPORT OF THE RESPONDENTS

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STATEMENT OF INTEREST[1]

The Retail Litigation Center, Inc. ("RLC") represents national and regional retailers. The RLC identifies and engages in legal proceedings that have a national impact upon the retail industry. The RLC's members employ millions of people throughout the United States, provide goods and services to tens of millions more, and account for tens of billions of dollars in annual sales. The RLC seeks to provide courts with retail-industry perspectives on important legal issues and to highlight the industry-wide consequences of significant pending cases. RLC's members include many of the country's largest and most innovative retailers, across a breadth of industries.

The National Retail Federation ("NRF") is the world's largest retail trade association, representing 18,000 discount and department stores, home goods and specialty stores, Main Street merchants, grocers, wholesalers, chain restaurants and Internet retailers from the United States and more than 45 countries. NRF's members are frequent targets of abusive patent lawsuits in the Eastern District of Texas and other such venues. NRF seeks to provide courts with information about the real-world impact that legal regimes, and challenges to laws and regulations, would have on the industry that provides the largest source of employment in the United States.

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[1] The parties have consented to the filing of this brief. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amici curiae*, its members, or its counsel made a monetary contribution to its preparation or submission.

The U.S. retail industry contributes $2.6 trillion to the annual gross domestic product. The typical retailer offers tens of thousands of products and services for sale to American and international businesses and consumers.

Amici support *inter partes* review ("IPR") because their experience shows IPR benefits business, patentees, and the U.S. economy as a whole. Retailers have a strong interest in the outcome of this proceeding because too often they are subjected to patent infringement suits based on patent claims they believe to be invalid. In these cases, the retailer is forced to choose between paying an unjust "nuisance" settlement (which can run into hundreds of thousands, or even millions of dollars) or paying more to litigate on principle. Retailers therefore depend on a predictable and efficient IPR process to defend against infringement claims from dubious patents. *Amici* respectfully submit this brief to inform the Court of the harm petitioners' argument would create for commerce generally and the retail industry in particular.

SUMMARY OF ARGUMENT

Many among *amici*'s members are patent owners. However, an even greater number repeatedly have been subjected to unfounded litigation by patent assertion entities ("PAEs") – businesses that do not themselves invent anything but rather buy patents to exploit them in the courts, not the marketplace. Such PAEs regularly sue retailers for alleged patent infringement based on products and technologies that retailers resell or use but did not design or manufacture. Consequently, retailers defending patent infringement litigation start behind the eight-ball,

lacking the knowledge or the means to analyze whether or how these products or services might infringe. This asymmetry of information between a PAE and a retailer-defendant is further exacerbated by the complexity of modern information technology. Yet, the Patent Act equally imposes strict liability on retailers for use, sale, or offering to sell allegedly infringing products and services.

As complex questions as to the scope and validity of a patent have become increasingly difficult to ascertain by members of the *amici* (no less a jury), a growing number of entities have misused the courts to extract value from patents through litigation, rather than productive use. Retailers sued for patent infringement by such PAEs must choose between settling for a substantial sum (though less than the cost of litigation) – leaving the invalid patent in place and potentially inviting further suits – or engaging in expensive and time-consuming litigation.

Congress created *inter partes* review before the Patent Trial and Appeal Board ("PTAB") in part to address this problem. IPR serves an important corrective function in executing the complicated Congressional policy for articulating the boundaries and ownership of statutory patent rights. This process ensures timely and fair resolutions for certain disputes about patent rights.

The Constitution allows Congress to create such a procedure. Congress has plenary power to establish a patent system, including to review patent determinations in an administrative adjudication. Patent monopolies exist to promote scientific and artistic progress by giving inventors a limited period of

exclusivity for a novel invention. Extending patent monopolies to unworthy inventions becomes a burden on commerce. The Founders wisely placed the task of striking this balance in the hands of Congress. Throughout the history of the patent system, Congress has created various systems to review patents in order to both promote worthy patents, and free commerce from invalid patents.

IPR creates an efficient and constitutional mechanism to resolve certain disputes about a patent's validity. Retailers favor the availability of IPR, because the PTAB can expunge invalid patent claims without burdensome litigation and extortive settlement. In the experience of the *amici*'s members, the IPR process successfully eliminates and deters litigation based on dubious patent claims, and saves retailers in particular and the economy in general many millions of dollars annually. Striking down the IPR procedure would put these benefits at risk.

ARGUMENT

I. THE CONSTITUTION GRANTS THE PTAB AUTHORITY TO REVIEW ITS OWN PRE-GRANT DECISIONS ON PATENT VALIDITY BASED ON NOVELTY AND NON-OBVIOUSNESS.

Patents serve public interests. The Constitution authorizes Congress to establish a patent system: ***"To promote the Progress of Science and useful Arts,*** by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . . ." U.S. Const. art. I § 8 cl. 8 (emphasis added). Property incentives granted to inventors are

therefore a private means to a public end. As a result, the Constitution gives Congress wide authority to taper patent rights as a "balance between public right and private monopoly" to encourage invention. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.* 489 U.S. 141, 167 (1989); *cf. Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) ("[c]reative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and other arts").

This Court repeatedly has upheld administrative adjudication for statutes serving such a public purpose. *See Thomas v. Union Carbide Agric. Prods. Co.*, 473 U.S. 568, 587, 594 (1985) (mandatory arbitration that is closely integrated with public regulatory order does not violate the Constitution); *Murray's Lessee v. Hoboken Land & Improvement Co.*, 59 U.S. (18 How.) 272, 284 (1856) (Congress may designate disputes involving federal rights for adjudication in non-Article III tribunals). The focus of this inquiry is not on whether the federal government is a party in a particular dispute. Rather, where the "claim at issue derives from a federal regulatory scheme," or if "resolution of the claim by an expert Government agency is deemed essential to a limited regulatory objective within the agency's authority," resolution by the non-Article III tribunal is appropriate. *Stern v. Marshall*, 564 U.S. 462, 490 (2011). Here, the plenary power of Congress to establish a patent system speaks to Congress's wide authority to determine how that patent system operates. When Congress establishes a regime "for a valid legislative purpose pursuant to its constitutional powers," it may delegate even a "seemingly private right" to an administrative tribunal

if that right "is so closely integrated into a public regulatory scheme as to be a matter appropriate for agency resolution." *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 54 (1989) (citation and internal quotation marks omitted).

Congress established the PTAB's limited administrative review for patent validity for three related reasons: First, to promote commerce by "reducing unwarranted litigation costs and inconsistent damage awards" related to patent validity questions; second, to take advantage of the specialized expertise of the U.S. Patent and Trademark Office ("USPTO" or "PTO") to establish "high quality patents;" and third, to "provid[e] a more efficient system for challenging patents that should not have been issued" and thus revive confidence in American patents. *See* H.R. Rep. No. 112-98, Pt. 1 at 39–40 (2011).

A. Patents are limited rights created by statute to serve the public interest.

Patents are not natural rights, but rather "exist only by virtue of statute." *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229 n.5 (1964). The patent monopoly "is created by the act of Congress; and no rights can be acquired in it unless authorized by statute, and in the manner the statute prescribes." *Gayler v. Wilder*, 51 U.S. (10 How.) 477, 494 (1851); *see also Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 35 (1923) ("in its essence all that the Government conferred by the patent was the right to exclude others from making, using or vending his invention").

But the patent monopoly created by Congress must serve the public purposes of the Constitution. "In crafting the patent laws, Congress struck a balance between fostering innovation and ensuring public access to discoveries." *Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2406-07 (2015). The Founders wisely recognized that an improvement in knowledge rightly belongs to the public, but that allowing a patent monopoly of limited scope and duration incentivizes this progress. "With regard to Monopolies, they are justly classed among the greatest nuisances in Government. But is it clear that, as encouragements to literary works and ingenious discoveries, that they are not too valuable to be wholly renounced?" Letter from J. Madison to T. Jefferson (Oct. 17, 1788).[2]

When patent rights do not serve the purpose of advancing scientific or artistic progress, they burden "the very lifeblood of a competitive economy." *Bonito Boats*, 489 U.S. at 146; *cf. also FTC v. Actavis, Inc.*, 133 S. Ct. 2223 (2013) ("'The public interest in granting patent monopolies exists only to the extent that the public is given a novel and useful invention in consideration for its grant.'") (quoting *United States v. Singer Mfg. Co.*, 374 U.S. 174, 199 (1963) (White, J., concurring)). Accordingly, the Constitution gives broad authority to Congress to limit the scope and duration of patent rights. *See Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 6 (1966) ("[w]ithin the scope established by the Constitution, Congress may set out conditions and tests for patentability").

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[2] *Available at* https://www.loc.gov/resource/mjm.03_0714_0719/?sp=5&st=text.

Striking this balance is difficult, and requires advanced technical knowledge. Pursuant to its plenary power to establish a patent system, Congress created the USPTO as an agency with "special expertise in evaluating patent applications." *Kappos v. Hyatt*, 566 U.S. 431, 445 (2012). Congress also established a statutory regime to determine when "the applicant is entitled to a patent" based on certain qualifications. *See* 35 U.S.C. § 131. Thus, an asserted invention must satisfy several statutory conditions for patentability, including that the claims be novel and not obvious to persons skilled in the relevant art. *See* 35 U.S.C. §§ 102, 103. *Inter partes* review is merely part of this statutory regime. Its "basic purpose" is "to reexamine [that] earlier agency decision." *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2144 (2016). Congress established IPR to "protect the public's 'paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.'" *Id.* (quoting *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945)); *cf. also Kimble*, 135 S. Ct. at 2407 ("This Court has carefully guarded [the limited patent term], just as it has the patent laws' subject-matter limits").

B. Administrative agencies review their own decisions to realize Congressional policy.

As a review process, IPR is "integrally related" to patent issuance, *Stern*, 564 U.S. at 490, and serves a critical role in stabilizing the patent system.

Article I authorizes Congress to establish a wide range of mechanisms, including adjudicatory functions, to implement its constitutional powers. *See Thomas*, 473 U.S. at 583 ("[t]he Court has long recognized that

Congress is not barred from acting pursuant to its powers under Article I to vest decisionmaking authority in tribunals that lack the attributes of Article III courts"). Although "[a]n absolute construction of Article III is not possible in this area of 'frequently arcane distinctions and confusing precedents'," [3] this Court's precedents give wide latitude for Congress to establish tribunals to evaluate statutory rights: "[W]hen Congress creates a substantive federal right, it possesses substantial discretion to prescribe the manner in which that right may be adjudicated . . . [including] provid[ing] that persons seeking to vindicate that right must do so before particularized tribunals created to perform the specialized adjudicative tasks related to that right." *Northern Pipeline*, 458 U.S at 80, 83. This power to establish administrative adjudication over a statutory right can exist where—as here—that right "does not depend on or replace a right . . . under state law." *Stern*, 564 U.S. at 491 (quotation omitted).

Congress's power to determine how disputes within the statutory right are resolved is "incidental to Congress' power to define the right that it has created . . . ." *Id.* at 83. Congress often establishes review procedures to ensure that its programs are working effectively, including allowing agencies to correct errors that convey private property rights, such as monetary benefits. *See* 42 U.S.C. § 404 (Commissioner of Social Security may recover overpayments); *cf. also Walters v. Nat'l Ass'n of Radiation Survivors*, 473 U.S. 305 (1985) (Veterans'

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[3] *Id.* at 583 (quoting *Northern Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 90 (1982) (Rehnquist, C.J., concurring)).

Appeals statutory scheme did not violate Constitution). This power to establish adjudication over statutory rights extends in certain situations even as to private real property. *See Block v. Hirsh*, 256 U.S. 135 (1921) (sustaining Congress's elimination of landlord right of ejectment and relegating it to an administrative factfinding forum).

However, it is not necessary to go so far in the present case. Unlike "property interests" that "are created and defined by state law," *Stern*, 564 U.S. at 495, patent rights have some of "the attributes of personal property" but "subject to the provisions of this title," *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 392 (2006) (quoting 35 U.S.C. § 261). Here, as part of the definition of the statutory patent right, Congress expressly provides that the USPTO has "authority to reexamine—and perhaps cancel—a patent claim that it had previously allowed." *Cuozzo*, 136 S. Ct. at 2137.

C. PTAB review of issued patents provides an important administrative corrective measure to erroneous patent issuance.

An error correction mechanism is particularly important in technical fields like patent law. That Congress has the power to establish patent rights and the PTO is uncontroversial. And "[i]t would be odd indeed if Congress could not authorize the PTO to reconsider its own decisions." *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284, 1291 (Fed. Cir. 2015); *see Cuozzo*, 136 S. Ct. at 2137.

Congress has experimented with various remedial procedures for erroneously granted patent claims. In 1981, in response to concerns that patent-validity

litigation was costly and ineffective, Congress created an *ex parte* reexamination process as "part of a larger effort to revive United States industry's competitive vitality by restoring confidence in the validity of patents issued by the PTO." *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 601 (Fed. Cir. 1985). The co-sponsors of the bill establishing the first reexamination procedure "foresaw three principal benefits." *Id.* at 602. First, "the new procedure could settle validity disputes more quickly and less expensively" than litigation; second, courts could rely on "the expertise of the Patent Office" in reviewing the relevant art and the record of the original grant; and third, administrative reexamination would "reinforce 'investor confidence in the certainty of patent rights' by affording the PTO a broader opportunity to review 'doubtful patents.'" *Id.* (quoting 126 Cong. Rec. 29,895 (1980) (statement of Rep. Kastenmeier)).

Although the error correction process has changed over the years, the classic administrative concerns about efficiency, expertise, and the dangers of "doubtful patents" continue to animate the current review procedures today. *See* H.R. Rep. No. 112-98, at 39-40 (similar reasons for establishing Leahy-Smith America Invents Act).[4] Undoubtedly, the IPR system "ensure[s] the effectiveness" of the patent system, *CFTC v. Schor*, 478 U.S. 833, 856 (1986), by keeping patents "within their legitimate scope," *Cuozzo*, 136 S. Ct. at 2144 (quotations omitted). Doubtful patents significantly

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[4] Pub. L. No. 112-29, 125 Stat 284, 35 U.S.C. § 1 *et seq.*

burden the American economy[5] and maintaining patents within their legitimate scope prevents this encumbrance. *See Microsoft Corp. v. i4i Ltd,* 564 U.S. 91, 113 (2011) (Congress "expand[ed] the reexamination process" in order "to account for concerns about 'bad' patents"). IPR thus plays an essential role in realizing Congressional patent policy.

II. RETAILERS BENEFIT FROM A STREAMLINED PROCESS TO EXPUNGE INVALID PATENT CLAIMS.

Retailers have a dual-edged relationship with patents and patent enforcement. Some retailers own a significant portfolio of patents for the products they create and the processes they invent.[6] But every major retail store displays for sale thousands of products of other companies, and uses hundreds of information technology products and services in the ordinary course of commerce. For example, a typical retail e-commerce website incorporates a dozen or more information technology solutions sourced from third parties and allows consumers to select from thousands of products sourced from dozens, if not hundreds, of vendors.

Retailers have no direct knowledge of how the multitude of products and services they use and offer

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[5] *See* Federal Trade Comm'n, *Patent Assertion Entity Activity* (Oct. 2016), https://www.ftc.gov/reports/patent-assertion-entity-activity-ftc-study [hereinafter *FTC Study*].

[6] *See* Comments of Retail Industry Leaders Ass'n to Federal Trade Comm'n and Dep't of Justice, *Impact of Patent Assertion Entities on Retailers* (Apr. 5, 2013), https://www.justice.gov/sites/default/files/atr/legacy/2013/04/24/paew-0051.pdf.

were designed, developed, or manufactured. As the Federal Trade Commission noted last year, "it is likely that the vast majority of firms in the "Retail Trade" industry received demands related to third-party products or services that they acquired either as resellers or end-users . . . and therefore may not possess technical information regarding their functionality." *FTC Study* at 65. Unlike manufacturers, retailers have no ability to analyze whether any of these products might infringe any of the millions of patents still in force.

Yet, the Patent Act imposes liability for infringement on any person that "makes, uses, offers to sell, or sells any patented invention . . . ." 35 U.S.C. § 271(a). Retailers face strict liability for patent infringement for the products they sell, and the products and services they use to run their businesses, though they typically have the least access to information about whether patents read on those goods and services. Further, their deep pockets and national presence often make retailers easy targets for patent suits by PAEs.[7]

IPR addresses the retailers' dilemma in two ways. First, the process offers a high-quality and cost-effective method for resolving patent validity questions.

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[7] *See* Andria Cheng, *Why Retailers Became a Top Target of Patent Trolls*, Wall St. J., July 25, 2014, https://www.wsj.com/articles/why-retailers-became-a-top-target-of-patent-trolls-1406325782 (in first half of 2014, 136 retailers were sued in 264 patent cases brought by nonpracticing entities); *see also* Press Release, Nat'l Retail Fed'n, National Retail Federation Forms Patent Reform Coalition (Jan. 15, 2015), https://nrf.com/media/press-releases/national-retail-federation-forms-patent-reform-coalition.

Second, the availability itself of IPR helps to deter nuisance infringement suits.

A. Retailers face patent liability for products and services they sell or use but do not make, though they often have the least access to information about possible infringement.

Patent law grants to the patentee the right to exclude others from selling or offering to sell, or using the subject of the patent. 35 U.S.C. §§ 154(a)(1), 271(a). This liability extends to retailers' resale[8] as well as offers to sell[9] goods, and use of systems sold to them by information technology vendors, that are covered by one or more patents. Lack of knowledge or intent is not a defense for retailers, as patent law imposes strict liability for infringement. *Fla. Prepaid Postsecondary Educ. Expense Bd. v. College Savings Bank*, 527 U.S. 627, 645 (1999) ("[a]ctions predicated on direct patent infringement, however, do not require any showing of intent to infringe").

Retailers face this strict liability, though they typically have the least access to information relevant to an allegation of infringement. Retailers lack the

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[8] *See, e.g., Triangle Conduit & Cable Co. v. Nat'l Elec. Prod. Corp.*, 138 F.2d 46, 48 (3d Cir. 1943) (plaintiff has separate cause of action against defendant-reseller for infringement that was independent from action against defendant-manufacturer); *Am. Chem. Paint Co. v. Thompson Chem. Corp.*, 244 F.2d 64, 67 (9th Cir. 1957) (same).

[9] *See Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contrs. USA, Inc.*, 617 F.3d 1296 (Fed. Cir. 2010).

knowledge of product design or manufacture needed to effectively defend against an infringement claim; and such details generally are closely held by manufacturers as confidential trade secrets that will not be shared even with business partners. As the FTC observed,

> [t]he manufacturer of an accused product typically has a much better understanding of the disputed technology and thus typically is in a better position to defend against the infringement suit than is a customer or retailer. And it is also more likely to have discoverable evidence because it produces the product.

FTC Study at 12. Patent notices, even if visible on the product's outer packaging, say nothing about the existence of third parties' claims to own patents on the same goods.

Moreover, retailers purchase goods in complex, transnational supply chains that include innumerable competing products and product models, variations, and features. It is virtually impossible for a retailer to shield its business in advance against third party infringement claims. Neither a mass market retail chain nor a local shop can know for certain the technical attributes of all the goods they purchase for retail or the systems they utilize to facilitate their business.

These factors make retailers attractive targets for PAE litigation, and over the last decade retailers of all sizes have been subject to suits and abusive

shakedowns for "nuisance" settlements.[10] The FTC found that more than seventeen percent (17%) of demand letter recipients were members of the "Retail Trade," and more than fifteen percent (15%) of cases brought by litigation-focused patent assertion entities were filed against the "Retail Trade" industry.[11]

Retailers defend patent infringement litigation from behind the eight ball. First, retailers have limited or no information at hand to assess the merits of the claims of infringement as to the products they use and sell. *FTC Study* at 12. Second, they must choose between paying hundreds of thousands of dollars to either litigate disputes that are likely not meritorious, or else settle with the patentee for a sum, that while substantial, is still less than the cost of defense. This is truly a Hobson's choice: PAEs typically strategically set settlement rates at or below litigation costs, yet settlement with one PAE encourages more PAEs to file equally frivolous suits. Many retailers report they have been sued for patent infringement by PAEs (and only by PAEs) at least one-to-two times each year—some many more times. In certain of these cases, the alleged infringement concerned services

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[10] A 2013 paper by Professor Colleen V. Chien concluded that "[r]etailers are hit hardest by non-tech PAE suits . . . ." Colleen Chien, *Patent Trolls by the Numbers* (Santa Clara Univ. Sch. Of Law, Legal Studies Research Paper No. 08-13 (Mar. 13, 2013)), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2233041.

[11] *FTC Study* at 5, 12. *See also* James Bessen, Jennifer Ford & Michael J. Meurer, *The Private and Social Costs of Patent Trolls*, Regulation, Winter 2011-2012, at 26, 29.

rather than tangible products, whose patent protection is particularly difficult for retailers to ascertain.[12]

A patent system that forces retailers to pick either poison has broader public policy implications. Taking the economically rational path of lower settlement costs leaves the doubtful patent in place to burden commerce. Thus, the incentive to settle never allows the "authoritative testing of patent validity" that this Court has seen as essential to the patent system. *See Blonder-Tongue Labs. v. Univ. of Illinois Found.*, 402 U.S. 313, 344 (1971). Settlement is particularly likely in cases where a doubtful patent can be asserted against many defendants, thus imposing an additional burden on commerce. There, a defendant has even less incentive to provide resources to invalidate a patent because if the defendant is successful, the benefit will accrue to all of the defendant's competitors in the marketplace.[13]

These costs harm the public as well as retailers, and are passed down to consumers in the form of higher prices and diminished competition. Individual retailers

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[12] USPTO, *Patent Trial and Appeal Board Statistics* 10 (Oct. 31, 2016), https://www.uspto.gov/sites/default/files/documents/aia_statistics_october2016.pdf [hereinafter PTAB statistics].

[13] *See* Mark A. Lemley & Carl Shapiro, *Frontiers of Intellectual Property: Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991, 2006 (2007) ("the benefits to the downstream firm of challenging the patent are reduced if it competes against other downstream firms who also use the patented technology. Invalidating the patent benefits all of the downstream firms and typically will not give the downstream firm at issue a competitive advantage over its rivals") (citation omitted).

reported that they have been subjected to patent infringement suits as frequently as once per year, and nearly all infringement suits were brought by non-practicing entities. Some retailers have been sued more than 50 times by PAEs. Retailers reported spending amounts ranging from more than half a million dollars to millions of dollars in defense costs and settlement costs. These amounts put retailers in the position of choosing between paying out settlements (and thus possibly inviting additional suits), or responding aggressively with expensive litigation. This rise of claims of dubious patents by PAEs increases the need for a cost-effective and high-quality resolution process.

IPR provides a more cost-effective method of attacking the PAE problem at its root – the assertion of invalid patents. IPR's efficiency is not a mere side benefit, but rather fulfills the essential purpose of the patent system to provide limited exclusivity to encourage innovation. Litigation and settlement costs create excess burdens on commerce in addition to the economic cost of the invalid patent itself, and IPR reduces these burdens.

B. In the face of strict liability for patents they do not themselves own, IPR provides an effective administrative method before an expert body to resolve disputes consistent with the public policy behind patent grants.

IPR presents a significantly better vehicle to contest patent validity than litigation. IPR is an iterative process, allowing the patent holder "to do just what he would do in the examination process, namely, amend or

narrow the claim." *Cuozzo*, 136 S. Ct. at 2145 (citing 35 U.S.C. § 316(d) (2012 ed.)). As a result, IPR aims to "preserve the merited benefits of patent claims better than the win-all or lose-all validity contests in district court." *Aqua Prods., Inc. v. Matal*, 2017 U.S. App. LEXIS 19293, at *11 (Fed. Cir. 2017) (en banc) (plurality op. of O'Malley, J.) (quoting *Patent Quality Improvement: Post-Grant Opposition: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary,* 108th Cong. 10 (2004) (statement of PTO General Counsel James A. Toupin)).

The most recent data from the USPTO confirm the need for error correction. For example, as of October 31, 2016, 3,770 IPR petitions had been filed. Out of those, 859 (23%) resulted in trials in which *all* claims were found to be unpatentable, and 199 (5%) resulted in trials where *some* instituted claims were found to be unpatentable.[14] An additional 710 (19%) petitions were terminated after the decision to institute a trial due to settlement, dismissal, or request for adverse judgment. *Id.* As a comparison, one recent study estimates that 28% of non-practicing entity patents would be found at least partially invalid for lack of novelty or for obviousness if they were litigated through trial.[15] These statistics indicate that in both ordinary litigation

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[14] *See* PTAB statistics, *supra* note 12, at 17.

[15] *See* James Bessen & Michael Meurer, *The Direct Costs from [PAE] Disputes*, 99 Cornell L. Rev. 387, 420 n.150 (2014) (*citing* Shawn P. Miller, *Where's the Innovation? An Analysis of the Quantity and Qualities of Anticipated and Obvious Patents*, 18 Va. J.L. & Tech. 1, 6–7 (2013)).

and IPR, an error-correction mechanism is sorely needed to expunge invalid patents.

Retailers' extensive experience with patent litigation and recent experience with IPR confirms these statistics and the value of IPR. RLC members report that IPR has borne out Congressional intent to create a cost-effective and efficient process for reexamining doubtful patents, in terms of both cost and error correction. In that survey, *every respondent* stated that it had been sued for patent infringement for selling a product that it had not designed or manufactured. Further, individual retailers reported that they are subject to patent infringement suits as frequently as once per year, and nearly all infringement suits are brought by non-practicing entities. Some retailers have been sued more than 50 times by PAEs. In certain of these cases, the alleged infringement in these suits concerned services rather than tangible products, whose patent protection is particularly difficult for retailers to ascertain.[16]

Retailers who used the IPR process report high quality of decisions and efficiency. Some individual retailers have instituted IPR as many as six times. Many more have had litigation stayed during the pendency of IPR proceedings brought by other defendants, and have benefited from the outcome of those proceedings. Retailers further report that the mere availability of IPR in itself minimizes the negative effect of dubious patents, and deters PAE assertion of flimsy arguments on weak patent claims. Retailers report that dubious patent claims have been

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[16] *See* PTAB statistics, *supra* note 12, at 17.

voluntarily narrowed or canceled after IPR was pursued or threatened. In such cases, litigation also may be withdrawn or significantly narrowed. In other cases, the threat or pursuit of IPR speeds up the settlement process, providing retailers with a lower-cost vehicle early in a case in order to apply pressure against nuisance suits. As a result, the availability of a cost-efficient IPR mechanism allows retailers to lower the burden on commerce to resolve infringement claims, and often dissuades PAEs from asserting questionable patents in the first place.

In sum, the benefits to the patent system, commerce, and the public – and the high economic and social costs of eliminating administrative review of patents – support maintaining IPR. If this Court interprets the availability of IPR as an unconstitutional invasion of Article III, the retail industry will have less ability to protect itself against the threat of infringement liability from invalid patents. And consumers will unnecessarily pay higher prices and suffer losses of competition for reasons wholly unrelated to scientific progress and innovation.

CONCLUSION

The decision of the Federal Circuit should be upheld.

Respectfully submitted,

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